

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 7, 2014

Volume 7 Issue 87

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- Moving from a 7-day high to a 7-day low in just 1 day has led to additional selling in the past.
- 5 gapps lower in a row often suggest an upside edge.

Short-term Outlook

The Bottom Line

Evidence is leaning bullish and the market is short-term oversold. I will look to take on a small amount of index exposure.

Summary of Recent Active Studies (see Letters from listed dates for details)-NOT UPDATED

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
May 6, 2014	Up < 0.25% but top 10% of range	1 day	Bearish	
May 6, 2014	SPX up VIX up Monday 10 high > 200	1 day	Bearish	
May 5, 2014	3 Higher Hi, Low, Close, then down close	1-4 days	Bullish	1.50%
May 5, 2014	SPX down. Up issue % > 55%	1-3 days	Bullish	1.10%
April 29, 2014	High-volume up day	1-10 days	Bullish	2.50%
April 24, 2014	5 Days up then 1 down. < 50-high > 200	1-9 days	Bullish	
Active - Long Term				
May 1, 2014	3 of 4 Market Timing Indicators weak	int term	Bearish	
April 28, 2014	Sell in May	6 months	Bearish	
April 22, 2014	5 Days Higher < 50 but > 200	1-15 days	Bullish	
April 17, 2014	3 days up gain 2%. 3/10 Offset HV < 0.25	1-19 days	Bullish	
April 7, 2014	SPX new high while NDX huge drop	1-50 days	Bullish	
December 23, 2013	QE Tapering	int term	Neutral	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
April 22, 2014	5 Days Higher < 50 but > 200	1-10 days	Bullish	

The Evidence

Last night's 1-day studies played out as suggested with a substantial down day on Tuesday. The SPX declined 0.9%, the NASDAQ dropped 1.4%, and the Russell 2000 fell 1.6%. Breadth was slightly negative as the NYSE Up Issues % came in at 32% and the Up Volume % was 25%. Total NYSE volume rose some from Monday's level.

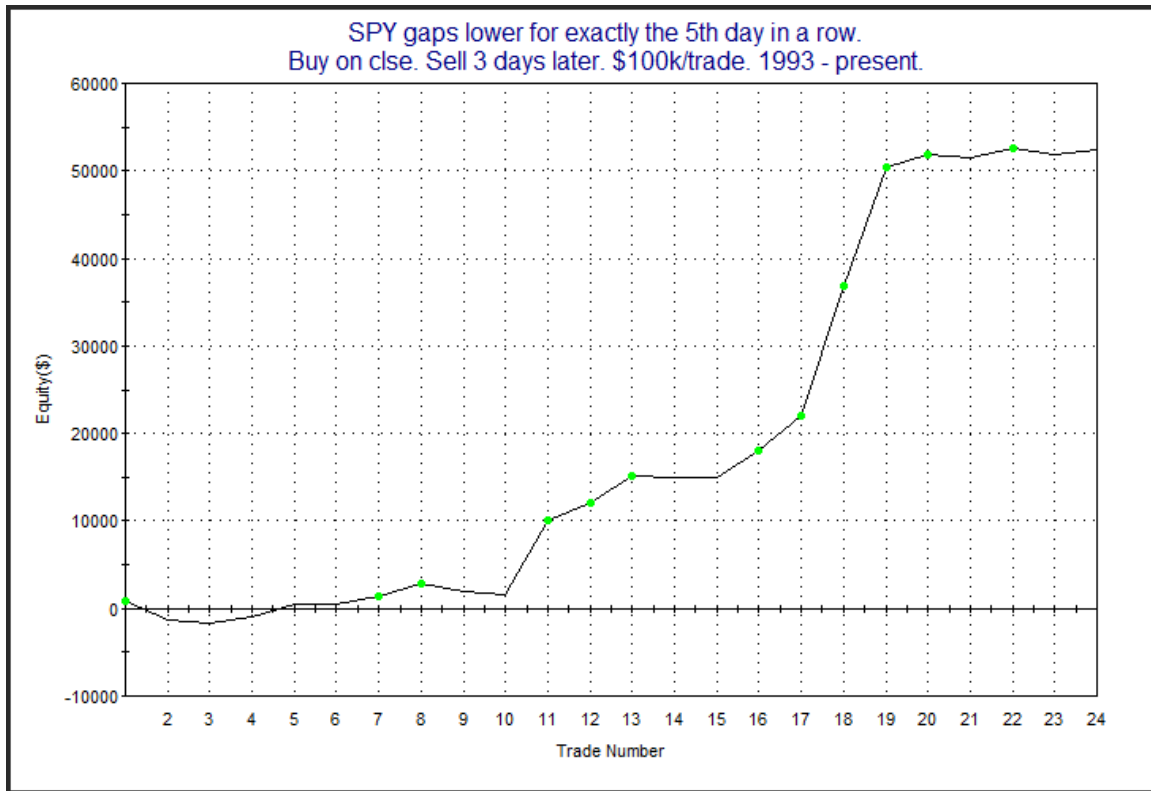
The message from the Quantifinder was mixed today with one bearish and one bullish study emerging. I'll show both below.

The first study was last seen in the 4/10/12 subscriber letter. It examined other times where the SPY opened the day with a gap down five days in a row.

SPY gaps lower for exactly the 5th day in a row. Buy on clse. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	60,503.56	24	14	10	58.33	5,240.63	19,398.00	-1,286.53	-3,070.17	4.07	5.70	2,520.98
4	53,048.58	24	13	11	54.17	4,725.54	17,914.00	-762.13	-2,061.72	6.20	7.33	2,210.36
3	52,359.56	24	17	7	70.83	3,378.77	14,708.85	-725.66	-2,305.68	4.66	11.31	2,181.65
2	44,026.21	24	16	8	66.67	3,192.20	12,693.50	-881.12	-2,084.16	3.62	7.25	1,834.43
1	23,339.29	24	15	9	62.50	2,176.36	11,683.71	-1,034.01	-2,244.48	2.10	3.51	972.47
23 of 24 instances closed above the entry price at some point in the next week. The 1 that failed occurred on 6/24/2002.												

Results here appear very strongly bullish. One reason I find this study so interesting is that it only uses opening prices. It doesn't even take into account how the SPY closed on the day of the entry trigger. It's somewhat unusual to see this gap action take place day after day since there are only 24 examples of five consecutive gap down openings. But when futures are being pushed lower each morning, allowing institutions to perhaps buy at a discount on a consistent basis, it certainly seems to suggest an upside edge going forward.

Below is an equity curve showing how this edge has played out over time using a 3-day exit.

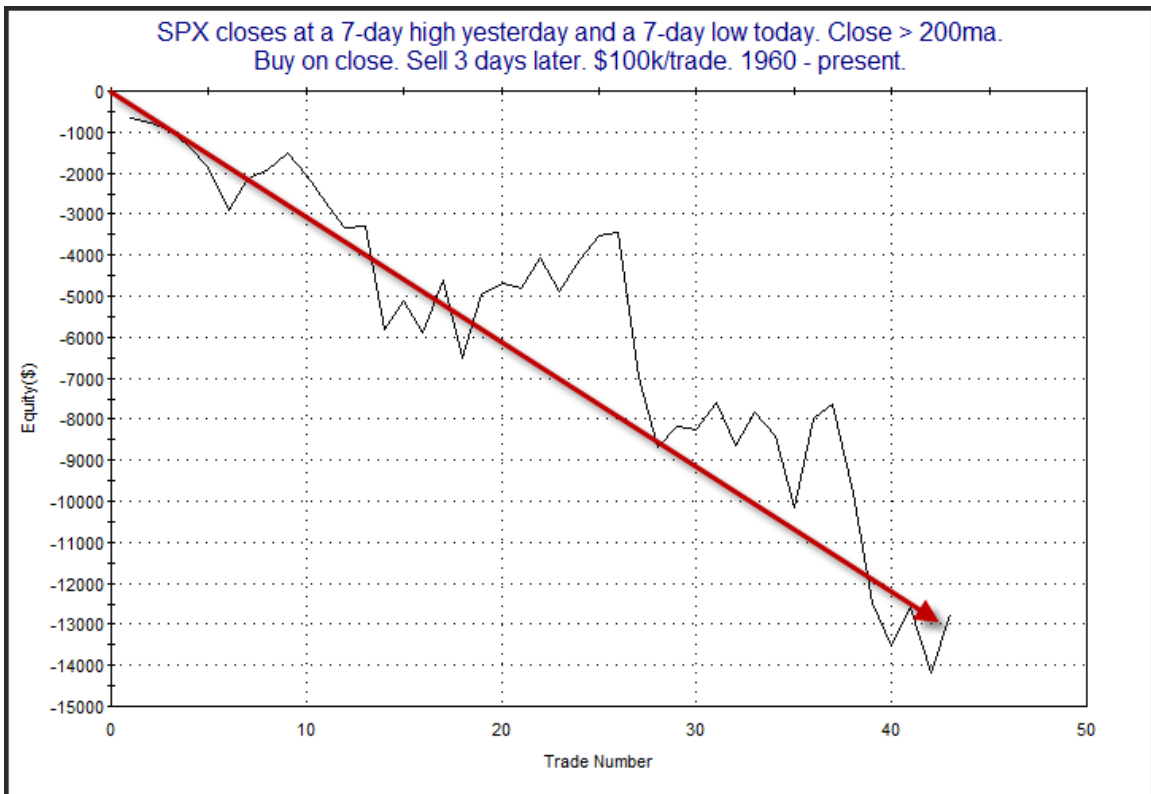


Definitely not the smoothest curve here. Much of the strength in the numbers is thanks to instances 18 and 19. But even if you took them out the curve would be heading higher for a long time. So this study still appears worthy of consideration.

But there was also a bearish study. For one, the move from a 7-day high to a 7-day low is something that has been met with further selling in the past. This was last seen in the 11/8/12 letter. Results are updated.

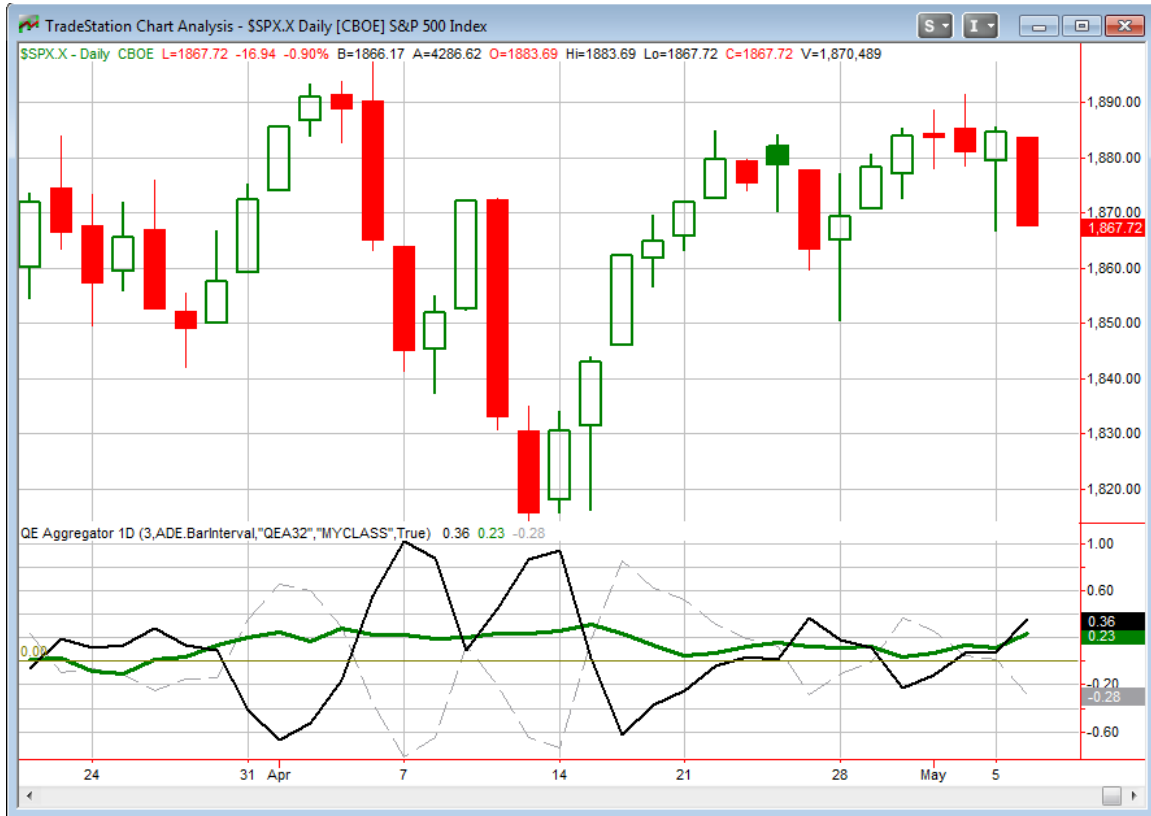
SPX closes at a 7-day high yesterday and a 7-day low today. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-9,665.68	42	20	22	47.62	1,332.60	3,594.32	-1,650.80	-4,884.75	0.81	0.73	-230.14
4	-10,661.18	43	18	25	41.86	1,386.65	2,873.88	-1,424.84	-3,895.76	0.97	0.70	-247.93
3	-12,754.60	43	19	24	44.19	745.27	2,159.82	-1,121.45	-3,520.36	0.66	0.53	-296.62
2	-10,665.89	43	18	25	41.86	694.61	2,437.50	-926.75	-3,611.48	0.75	0.54	-248.04
1	-5,435.29	43	19	24	44.19	617.83	2,002.36	-715.59	-3,794.40	0.86	0.68	-126.40

Numbers here are still bearish. Below is the equity curve.



Pretty steady looking curve for a bearish edge in an uptrend. So I threw both studies into the Aggregator tonight.

I have updated the [Aggregator](#) chart below.



The mix of studies tonight caused the green Aggregator Line to rise further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also rose further above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are slated to remain positive on Wednesday. This could change if strong bearish evidence emerges. The Differential Pivot will be 1885.55 on Wednesday. That is nearly 1% above Tuesday's close. So for SPX to move back to an overbought state, it will take a strong close higher on Wednesday.

I've avoided buying the last few days because expectations were muted and the market was in the upper end of its short-term range – overbought by some measures. Tuesday's

pullback took care of some of that. Most of the evidence still points up. And Tuesday's selloff made the price of entry quite a bit cheaper. SPX is now oversold using several short-term metrics. With all this in mind, I like the long-side edge enough that I will look to begin scaling in to a position. Details are in the Trade Ideas section near the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/5– slightly bearish

The intermediate-term outlook was last updated in the 5/5/14 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

SPY – buy ¼ index position @ \$186.78 LIMIT. This is based on the short-term outlook above. I will look to start scaling in to an index position.

Current Open Trade Ideas

None

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